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INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Industrial Development Fund - estimated resource level and programme for 1993-1994

Report by the Director-General

Summary

Reviews the current pledging pattern of the Industrial Development Fund and submits proposals for the programming thrust for 1993 and 1994.

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Introduction

1. The Financial Regulations of UNIDO stipulate that the Industrial Development Fund (IDF) shall be financed by voluntary contributions to the Organization and such other income as is provided for in the Financial Regulations. Furthermore, the Director-General shall administer IDF in accordance with the general policy guidelines governing the operations of the Fund that are established by the General Conference, or by the Industrial Development Board acting on behalf of the Conference, and in accordance with the Financial Regulations (regulation 6.2).

2. The financial management of IDF is governed by rules 106.9 to 106.18 of the Financial Rules of UNIDO (UNIDO/DG/B.74). In accordance with rule 106.11, "contributions to the Fund may be accepted by the Director-General in currencies chosen by the contributors, provided that such currencies are readily usable for the purpose of the contribution concerned."

3. In decision GC.4/Dec.21 the General Conference encouraged the Director-General to pursue the development of the programme approach described in document GC.4/28 in order to enhance the impact of UNIDO assistance and requested the Secretariat to promote selected programmes following the medium-term plan priority areas; it also urged Member States to provide adequate financial resources for the development and implementation of such programmes. In the same decision the Conference encouraged the Director-General to continue utilizing IDF resources as a means for the mobilization of larger financial flows, both for technical cooperation and investment, and recommended the improvement of investment-related activities.

I. ESTIMATED RESOURCE LEVEL

4. The pledges announced in 1991 amounted to $28.9 million, a slight decrease as compared to the $29.8 million pledged in 1990. The overall position of the Fund can be considered as stable since the Fund continued to enjoy support by all its major donors. There was a change in the pledging pattern of certain new and traditional donors, who responded positively to the repeated requests by the Secretariat for increased flexibility and programmability of their contributions. For the first time since the inception of the Fund, umbrella contributions were given in 1990 and 1991 under the special-purpose segment of the Fund, to be allocated to specific medium-term plan priorities, or to support preparatory assistance activities, thus enabling the Secretariat to increase and improve

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specific project and programme development activities leading to technical cooperation of enhanced quality.

5. The Secretariat will continue its efforts to reach the annual funding target of $50 million for IDF, including $10 million under the general-purpose segment of the Fund. This source of financing becomes particularly important as the highly competitive environment for development assistance funds of a multilateral nature and the unpredictable transitional situation of the specialized agencies within the United Nations system resulting from the United Nations Development Programme (UNDP) successor arrangements for agency support costs make it difficult at this stage to provide a realistic forecast of the resource level for the years 1993 and 1994.

II. PROGRAMMING THRUST, 1993-1994

6. In the current biennium (1992-1993) the Industrial Development Fund will continue to be one of the main financing mechanisms for UNIDO technical cooperation activities, one that is aimed at achieving a flexible and growing funding base that will enable the Secretariat to carry out the Organization's mandate and to provide sustained support to the developing countries. Considering the decrease in the UNDP indicative planning figure (IPF) resources for UNIDO implementation expected as a result of the UNDP successor arrangements and government execution, and the ad hoc nature of projects financed by trust funds, IDF will constitute the main programmable source of funds and will be instrumental in assisting the Secretariat to orient its technical cooperation activities (i.e. policy advice, direct support, institution-building, training, research and pilot projects) to priority programmes and projects in the medium-term plan.

7. During the period 1993-1994 the Secretariat will follow the programming thrust outlined in document IDB.8/11-PBC.7/14, chapter II, section A, and elaborated in greater detail in document GC.4/28. This programming thrust, which has the support of the Board (IDB.8/Dec.29) and of the General Conference (GC.4/Dec.21), focuses on:

(a) Transfer and appropriate application of new and advanced technologies in order to ensure better quality of products and environmental sustainability (IDB.8/11-PBC.7/14, chap. II, A, para. 9);

(b) Promotion of comprehensive programmes of technical cooperation that focus on countries or regions for the rehabilitation of specific subsectors of industry and/or on industrial areas (chap. II, A, para. 10);

(c) Promotion of "up-front" activities of technical cooperation such as policy advice, sectoral and subsectoral studies and surveys, integrated programme development and preparation of programme and project concepts on international priority themes that also feature as a priority in country development plans (chap. II, A, para. 11); and

(d) Promotion of activities to increase the flow of resources to productive investment projects (chap. II, A, para. 12).

8. A detailed description of the programme approach and its application is provided in chapter I of document GC.4/28. Integrated programmes aim at addressing a number of problems affecting an industrial system through projects that are interrelated and complementary and involve both technical cooperation and investment-related activities. The programme approach, by better identifying and analysing problems, facilitates the formulation of solutions with greater potential impact, thus improving quality. Furthermore it can be used in an optimal manner as a catalyst for the mobilization of further financial flows in the form of additional technical cooperation and investment resources.

9. The UNIDO approach to investment promotion and the many and varied promotional activities carried out under IDF aimed at mobilizing investment resources are explained in chapter II of GC.4/28.

10. In accordance with General Conference decision GC.4/Dec.11, paragraph (d), in the period 1993-1994 priority will be given to ensuring the quality of IDF-financed activities by giving greater consideration in future programming and appraisal activities to the quality of UNIDO programmes and projects, in terms of their relevance, cost effectiveness and sustainability, as defined in the annex to document GC.4/28. The "up-front" preparatory activities which are described in chapter IV, parts A and B, aim at enhancing the quality of IDF projects by enabling UNIDO to develop country strategies as a basis for programming and for project design and identification. Such activities at the global, regional, country and sectoral levels are also instrumental in ensuring the quality of projects and programmes in terms of their relevance to the industrial development objectives of recipient countries. The preparatory activities for large-scale projects will increasingly include, where appropriate, the organization by UNIDO of on-the-spot project formulation and appraisal meetings involving all relevant parties as described in document IDB.9/3, paragraph 21. This approach, which is aimed at ensuring the relevance of IDF projects and programmes, will provide: (a) a common understanding of the problems to be addressed by the project; (b) a realistic definition of the means to achieve the purpose agreed upon; and (c) a concrete basis for implementing, monitoring and evaluating project activities.

11. As pointed out in GC.4/28 (para. 41) and IDB.8/11-PBC.7/14 (para. 11), account should be taken of the close relationship between quality of projects and availability of freely programmable and flexible resources in the form of general pool and/or umbrella contributions.

12. As an overall objective in the use of IDF, the Secretariat will seek to optimize the impact of the very limited IDF resources (as compared to the requirements in the field of industrial development) by promoting programmes and projects that perform a catalytic and multiplier function. This will be achieved by mobilizing additional resources through IDF projects and programmes, grant aid and investments, as well as from

international organizations, development financing institutions, bilateral donors and the private sector.

13. In the period 1993-1994 the following programming and management modalities will be emphasized:

(a) Application of quality criteria and quality control measures, as outlined in paragraph 10 above;

(b) Ensuring the transparency of ongoing activities through monitoring and evaluation as well as reporting to donors and policy-making organs;

(c) Application of streamlined procedures for programme and project development and identification of sources of funds at the concept stage of the project or programme development process; and

(d) Ensuring optimum programming complementarity among IDF and other UNIDO-managed funds (Special Industrial Services programme, regular programme for technical cooperation and trust funds).

14. It is expected that Member States will fulfil the request of the governing bodies to ensure that the desirable annual IDF funding level of $50 million be reached as soon as possible (decisions GC.4/Dec.21 and IDB.8/Dec.29), and that Member States' contributions to the general-purpose convertible segment of the Fund may reach the desirable minimum annual level of $10 million (decision GC.4/Dec.21, para. (g)). The Secretariat believes that the most effective promotional tool in that respect will be the quality of programmes and projects while the expertise available within the Secretariat and the application of a multi-disciplinary approach in project and programme development and implementation will continue to be important assets of UNIDO. Donors may wish to channel funds through UNIDO particularly for the implementation of complex endeavours such as integrated programmes, technology programmes requiring highly technical backstopping capabilities and activities relating to policy advice of an impartial nature.

15. As in the past, in programming the use of IDF resources, sectoral and thematic emphasis will be given to the priority areas included in the medium-term plan, 1992-1997 (PBC.7/17). The main programming themes for the individual geographic regions will remain similar to those given in document IDB.8/11-PBC.7/14 and Corr.1, chapter II, paragraph 18.

16. In the case of the least developed countries (LDCs), the programme will highlight the priorities set out in the industrial action programme for the least developed countries adopted by the General Conference at its fourth session (GC.4/Res.10), in particular: human resource development, rural industrial development, strengthening of macroeconomic conditions and the mobilization of financial resources for industrial development, improvement of the scientific and technological base, and integration of women in industrial development.

III. ACTION REQUIRED OF THE COMMITTEE

17. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls General Conference decision GC.4/Dec.21 on the Industrial Development Fund;

"(b) Takes note of the report of the Director-General on the Industrial Development Fund (IDF) contained in document IDB.10/2-PBC.8/2 and the programming thrust for 1993 and 1994 proposed in chapter II of that document;

"(c) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1993-1994 in accordance with the priority areas of the medium-term plan, 1992-1997 (PBC.7/17);

"(d) With reference to financial rule 106.11 and in light of the critical situation of the general-purpose convertible segment of the Fund as well as to allow for programming flexibility, urges all donor Governments to provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of $10 million may be achieved as soon as possible;

"(e) Urges Member States to reconsider their IDF pledging policies to ensure that the desirable annual funding level of $50 million be reached as soon as possible; and

"(f) Encourages Member States to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes (IDB.10/2-PBC.8/2, para. 10)."

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OPERATIONAL BUDGET: REIMBURSEMENT FOR PROGRAMME SUPPORT ~~AND~~ ADMINISTRATIVE SERVICES

Cost measurement study on the UNDP successor arrangements for agency support costs

Report by the Director-General

Summary

Reports on the results of a cost measurement study of the main UNDP executing agencies undertaken by a consulting firm engaged by the United Nations Development Programme within the framework of the development of the successor arrangements for agency support costs. The findings show that UNIDO is one of the most cost-efficient agencies among the five studied.

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Introduction

1. Within the framework of the implementation of the United Nations Development Programme (UNDP) Governing Council decisions 90/26 and 91/32 on successor arrangements for agency support costs, a consulting firm was hired by UNDP to undertake a detailed study of the cost of supporting the technical cooperation activities carried out by the Food and Agriculture Organization (FAO), the International Labour Organisation (ILO), the United Nations Department of Technical Cooperation Development (UNDTCD), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and UNIDO. The study was intended to focus on the services to be provided under the administrative and operational services (AOS) category of support services. From the very outset, the consultants were also requested to study the cost of a Professional work-month of services to be delivered under technical support at both the programme (TSS-1) and project (TSS-2) levels. The study was carried out during the first half of 1991 and the draft results were submitted to the UNDP Governing Council in June of the same year.

2. After discussions with the agencies and UNDP, supplementary work was carried out by the consultants and a report was finalized in November 1991. This report was based on 1990 figures that were subsequently updated to reflect the full 1990-1991 biennium costs and delivery figures. At the same time, the consultants used the delivery figures for the 1990-1991 biennium and costs budgeted for the 1992-1993 biennium to project the support cost rates for the current (1992-1993) biennium. It was pointed out that this projection was obviously very speculative as, in the ultimate analysis, actual delivery figures would be different (see explanation of methodology below). The support cost rates projected for 1992-1993 would only be correct were delivery for the five agencies in the current biennium to remain at the same level as in 1990-1991.

3. The present document presents cost rates for administrative and operational services based on 1990-1991 costs and delivery, as well as the reimbursement arrangements derived therefrom for activities carried out in support of UNDP-financed projects and programmes. These rates of

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reimbursement will also apply to the 1992-1993 biennium. For the cost per work month of technical support services, updated 1992-1993 figures (as reported by the consultants at an interagency meeting in February 1992) are presented as they do not depend directly on project delivery, but are based on the programme and budgets as approved.

I. ADMINISTRATIVE AND OPERATIONAL SERVICES

Methodology

4. After studying the methodology applied by the UNIDO Secretariat in the review of the cost identification system in UNIDO and the cost of regular budget support to technical cooperation and related activities (document PBC.6/12), the consulting firm adopted essentially the same approach for all agencies, but at a higher level of disaggregation of organizational units and cost components. The following steps were carried out:

(a) Eight separate clusters of administrative and operational services were established relating to the delivery of:

(i) International project personnel;
(ii) National project personnel;
(iii) Subcontracts;
(iv) Fellowships;
(v) Other training (study tours and in-service training);
(vi) Local purchase orders;
(vii) Headquarters purchases (small);
(viii) Headquarters purchases (large, i.e. over $70,000).

(b) For each major organizational unit in the respective secretariats the total cost was determined, including direct costs (such as travel) and common costs (such as space and currency fluctuation costs);

(c) Agency-wide central services costs (such as buildings management, electronic data-processing (EDP) and personnel) were distributed over other units on the basis of specific statistics such as space occupied, EDP time used and staff resources employed;

(d) For all organizational units contributing to each cluster of AOS services, a survey was carried out to establish the percentage of time spent by each unit on providing those services. By multiplying the resulting percentage by the total costs for each unit ((b) and (c) above) and adding the results across the agency as a whole for each cluster of AOS services, the consultants established the dollar cost of providing those services;

(e) For each agency, the delivery of technical cooperation was broken down by category of project input, corresponding to the AOS clusters cited in (a) above;

(f) The cost in percentage terms for each cluster was then determined ((d) above as a percentage of (e)).

Results

5. The results for the five agencies are shown in table 1 below. The differences between the five executing agencies in the above rates are due to a number of major determining factors:

Table 1

Costs as a percentage of delivery by cluster of services

	FAO	ILO	UNESCO	UNIDO	UNDTCD	Component weighted average
Project personnel						
International	16.22	20.10	22.15	15.91	13.04	16.62
National	21.87	22.53	31.36	19.20	9.02	20.57
Subtotal	17.08	20.44	24.77	16.26	12.41	17.22
Subcontracting	15.81	37.80	32.73	16.42	18.36	20.68
Training and fellowships						
Fellowships	15.55	43.53	45.58	21.76	20.93	22.07
Other training	62.12	46.68	31.85	26.51	25.13	38.33
Subtotal	28.87	45.58	34.12	24.49	23.02	30.36
Procurement of equipment and supplies						
Local purchase orders	8.11	15.37	88.41	9.58	9.69	11.40
Headquarters purchases (< $70,000)	21.20	20.01	28.18	12.60	15.01	17.83
Headquarters purchases (> $70,000)	18.10	5.64	18.71	3.88	6.11	7.61
Subtotal	12.08	16.06	36.73	9.39	12.11	13.59
Cost as a percentage of total delivery	17.17	24.07	30.38	15.17	14.36	18.43

(a) The findings of the cost measurement study suggest that cost rates are highly susceptible to changes in the volume of services performed. It would seem that each service calls for a certain minimal infrastructure if it is to be performed effectively, and that the cost of that infrastructure remains almost constant up to a certain level of delivery. 1/ In such instances (close to one half of the service categories), an increase in the volume of services delivered would reduce the cost rates considerably. In all other instances, the volume of services performed utilizes the capacity of the minimal infrastructure. Hence, an increase in services rendered would result in a less-than-proportionate increase in costs, thus yielding a more gradual decline in cost rates than in the first instance. In sum, it is probable that an increase in the volume of services delivered would result in lower cost rates.

(b) The rates are also highly susceptible to variations in the United States dollar exchange rate. For the four Europe-based agencies at least, the costs of services expressed in dollars decrease with the appreciation of the dollar against the local currency, with the opposite effect occurring when the dollar depreciates. Within these circumstances, though, project delivery is measured in dollars. Therefore, the ratio between cost and delivery varies inversely with the dollar exchange rate. (This does not apply to UNDTCD, which is based in New York.)

II. TECHNICAL SUPPORT SERVICES

Methodology

6. The methodology applied was as follows:

(a) In the time-measurement survey (see para. 4 (d) above) carried out for the AOS study, relevant staff in the agencies were requested to indicate the percentage of time spent on: (i) providing technical support to projects and (ii) on programme-level work;

(b) The total number of Professional staff-months available for the units involved in TSS-1 and TSS-2 services was determined on the basis of the programme and budgets;

(c) The total number of work months devoted to programme- and project-level technical support was determined by multiplying the percentage obtained under (a) by the total number of work-months obtained under (b);

(d) Similar to the methodology described in paragraph 4 (b) to (d) above, the average cost per work-month was computed by dividing the total estimated cost of programme-level activities and project-level technical support by the number of work-months obtained under (c).

7. In addition to the measurements above, the average direct salary costs (including common staff costs) were computed for the Professional staff involved in providing programme- and project-level technical support.

1/ In some extreme cases, the volume of services delivered is so low as to result in inordinately high cost rates (cf. the UNESCO rate for local purchase orders = 88.41 per cent).

Results

8. The following results were obtained for total 1992-1993 costs per work-month:

Table 2

Total cost per Professional work-month of services delivered (including General Service support and all other costs)

(In US dollars)

	TSS-1	TSS-2	TSS-1 & TSS-2 combined
FAO	25,953	20,404	23,835
ILO	31,418	24,652	26,868
UNDTCD	18,852	18,622	18,693
UNESCO	20,842	18,270	19,937
UNIDO	18,432	17,901	18,054
Weighted average	24,106	20,154	22,175

Table 3

Direct salary costs for Professionals involved in programme- and project-level technical services:

(In US dollars)

FAO	9,474
ILO	10,293
UNDTCD	9,338
UNESCO	9,779
UNIDO	8,138
Weighted average	9,514

III. CONCLUSIONS

9. When comparing organizations, UNDTCD should be treated with caution since it is the only organization located in a dollar-based economy. Furthermore, it does not have to maintain an independent headquarters operation since it is part of the United Nations. Although the consultants have attempted to measure equivalent costs, there are reasons to believe that certain cost advantages accrue from being part of a much bigger organization.

10. Of the four Europe-based organizations, it is evident from the study that UNIDO provides technical services at the lowest cost. Only a small part of the difference in those costs among the respective agencies is due to variations in cost levels. Most of the difference is due to:

(a) Lower average level and grade of Professional staff involved in providing technical services;

(b) A lower ratio of General Service staff to Professional staff.

11. The first point is vividly illustrated by comparing direct salary costs per Professional work-month: UNIDO costs are almost 15 per cent lower than those of UNDTCD (next lowest).

12. The results show a similar pattern for AOS services. In the overall average, UNIDO has the

lowest cost rate of the Europe-based agencies; of the five agencies surveyed, only UNDTCD has lower rates, for the reasons mentioned in paragraph 10 above. The rates of UNIDO are much lower than those of ILO, the organization that is closest to UNIDO in terms of delivery.

13. In addition to the two factors cited in paragraph 11 above, a different organizational and procedural approach is likely to be the major reason for the differences.

14. The cost measurement study demonstrates that, compared to similar organizations, UNIDO is a very lean organization whose costs for similar work are significantly lower. This has been achieved despite the fact that UNIDO works in a sector where the cost of specialized personnel tends to be higher than in such sectors as education, agriculture or labour. This underscores the fact that the scope for further savings or redeployment is extremely limited or even non-existent.

IV. ACTION REQUIRED OF THE COMMITTEE

15. The Committee may wish to take note of the findings described in the present report.